



Grand Canyon State Electric
Cooperative Association, Inc.

Your Touchstone Energy® Cooperatives

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April 21, 2014

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Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

AZ CORP COMMISSION
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Re: *Cooperatives' Comments in the Proposed Rulemaking to Modify the Renewable
Energy Standard Rules; Docket No. RE-00000C-14-0112*

Dear Sir/Madam:

The Grand Canyon State Electric Cooperative Association ("GCSECA"), on behalf of its Arizona cooperative members,¹ submits the attached comments in response to Arizona Corporation Commission Staff's filing dated April 4, 2014. In that filing, Commission Staff requested interested parties file comments on seven concepts regarding the Renewable Energy Standard and Tariff ("REST") Rules.²

Arizona Corporation Commission

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¹ For purposes of the REST Rules, the Arizona cooperative members are: Duncan Valley Electric Cooperative, Inc.; Graham County Electric Cooperative, Inc.; Mohave Electric Cooperative, Inc.; Navopache Electric Cooperative, Inc.; Sulphur Springs Electric Cooperative, Inc.; and Trico Electric Cooperative, Inc. (collectively, the "Cooperatives"). Each Cooperative reserves the right to file individual comments on these concepts and otherwise in this Docket, as they deem appropriate.

² Net metering can directly and substantially affect the impact of REST programs on a cooperative's financial health, and thus its ability to provide reliable electricity to its members and the price of that electricity. However, because the Commission has opened a separate docket to examine aspects of net metering, the Cooperatives defer detailed discussion of net metering to that docket.

Cooperatives Support Flexibility

Initially, the Cooperatives emphasize that under the REST Rules the renewable energy and DG requirements for cooperatives are established on a cooperative by cooperative basis based upon the individual REST Implementation Plans filed, reviewed and approved annually. Once approved, the provisions of those plans constitute the Cooperative's annual renewable and distributed renewable requirements under Rules 1804 and 1805. This process has worked well for the Cooperatives and their members. This aspect of the REST Rules recognizes that, as a group, the Cooperatives are not-for profit and member-owned entities with member-elected Boards that are well-positioned to determine the type and amount of renewable energy and REST programs appropriate for their service areas. At the same time, the existing REST Rules allow the Cooperatives to propose, and the Commission to approve, REST programs that are tailored to each Cooperative. The Cooperatives continue to support this existing aspect of the REST Rules and would oppose any modification that seeks to change it or threatens its usefulness, such as adopting annual minimums that must be achieved by the Cooperatives or blanket monitoring requirements that increase costs, but provide little or no benefit to their members.

Changing Circumstances Require Re-evaluation of the REST Rules

The Commission was an early and innovative supporter of renewables—the Environmental Portfolio Standard was passed in 1998. Sixteen years later, the Commission must re-evaluate what role the REST Rules should continue to play in the DG market. While tax incentives and net metering requirements continue to distort market forces, it appears reductions in costs and adoption of a leasing model have minimized, and in some cases eliminated, the need for up-front incentives. For example, despite reduced purchase incentives, some cooperatives continue to see

increased DG installations., The change in “delivery system,” net metering and other external factors have become the primary determinants in DG customer demand and supply—not the REST Up Front Incentives (“UFIs”).

Experience also shows that incentives are most effective where full time customers have sufficient income and intend to stay put long enough to achieve a return on investing in renewables, with or without UFIs. The high percentage of low income and transient populations (non-homeowner) in many cooperative service areas can result in the limited use of incentives by members. These same customers tend to resent paying a surcharge so incentives can be made available to others, especially those with greater financial means.

These circumstances justify re-examining and possibly updating the REST Rules, as well as the net metering rules.³ While the Commission should acknowledge changing circumstances in re-examining and developing changes to the REST Rules, it should continue to preserve and enhance, as much as possible, the Cooperative Board’s role of setting DG standards and renewable requirements. That and other steps are fully consistent with the Commission’s first stated objective in Decision No. 74365, i.e., that the REST Rules be opened to develop a “new methodology for utilities to comply with renewable energy requirements.”

We note, the Cooperatives have, in good faith, utilized the existing REST Rules as a guideline for developing their own plans. Therefore, revisions to the REST Rules that would increase Cooperatives' REST requirements or that would require changes to or impact existing renewable

³ Net metering drives a fixed-cost shift from net metered customers to non-net metered customers. While net metering and incentives paid for DG are interrelated, the Cooperatives believe that the issues surrounding the fixed cost shift are potentially a much larger financial impact to the Cooperatives and their members. We understand this issue will be addressed by the Commission in the separate docket that has been recently opened.

energy contracts, as well as negotiated agreements, with developers would generally be opposed by the Cooperatives.⁴

I. Track and Monitor

What is the purpose served by requiring Cooperative's to incur costs to track and monitor the installation of DG? Does the purpose change when the cooperative's actions/incentives are not driving DG installation in the first place? Where systems are installed by others, the Cooperatives have no reason to track or monitor the installation unless there is a request for interconnection or for net metering. Then the type of information obtained and the degree of monitoring will depend on the type of installation. Moreover, the majority of Cooperatives are, at best, only able to provide an installed capacity rating for DG system output and to monitor the interconnection with their system. The rules should try to minimize or eliminate, not maximize, the need for Cooperatives to track and monitor DG installations.

II. Process Where Utility Would Purchase Least Cost RECs or kWh

If the Commission determines the REST Rules still have a future role in the DG market, allowing compliance through purchase of RECs appears the most reasonable approach in the future. However, the Commission must avoid creating costly and unnecessary administrative requirements in an effort to ensure every REC is purchased at least cost. We note the day is rapidly coming, if it has not already arrived, when renewable projects should be required to compete with all other resources in the market on an equal economic footing. Therefore, any least cost data should be secured as part of the Cooperative's normal RFP process for obtaining a

⁴ For example, this would not preclude adjusting net metering tariffs to address unreasonable subsidies provided to customers installing renewables, provided the customer had been placed on notice that existing tariffs and charges were subject to change by order of the Commission.

new power supply. To the extent the Cooperative is an all requirements customer, it may need to develop an alternative, such as working with its supplier to secure competitive pricing information for renewables.

III. Creation of Maximum Conventional Energy Requirement

This concept makes no sense and should be rejected. It offends the core concept of operating a utility so as to provide reliable power at the least cost. The market, ongoing innovations and energy resource costs should drive investments. To the extent diversification through renewables is to required, the requirement should set forth up-front, not hidden as with this proposal. Again the Cooperatives believe review of annual plans based upon general goals for guidance and without mandating specific requirements has worked for the Cooperatives and need not be altered.

IV. Mandatory UFI

This concept is moving in the opposite direction of the market and the Commission. Many markets have made a significant move to leases which do not require UFIs. Cooperative member/customers should not be required to continue to pay surcharges for UFIs if the market no longer needs such incentives to install DG. On the other hand, reasonable incentives may be an appropriate tool to move toward non-mandatory renewable goals. Each Cooperative Board should be able to make this determination in the first instance, subject any review and approval the Commission may retain.

V. REC Transfer Associated with Net Metering

This concept only addresses the issue of who owns the Renewable Energy Credit ("REC") and none of the other issues created by the REST Standard. However, assuming the requirements remain in place, then all RECs associated with a net metered customer's renewable installation should be assigned to the utility, so long as there are any incentives or direct or indirect subsidies for renewables being funded by the Cooperatives and their members.

As a side note, there are different definitions of a REC. A Google search found some define a REC on a MWH hour basis not on a kWh basis. The Commission may want to begin to use the more universal definition of a REC based on a MWH to avoid confusion, or at least be sure they are comparing apples to apples when discussing them.

VI. Recovery of DG/DE Costs Through the Standard Rate Case Process

This concept should be rejected so long as there is a renewable mandate and/or requirement for implementation plans to be filed annually. Requiring funding of mandated programs to await recovery in future rate cases creates a disconnect between regulatory mandates and funding. The current program acts like any other adjustor mechanism by tying funding directly to expenditures and requiring annual reporting. For non-profit Cooperatives, this approach will only accelerate the frequency of rate increases by reducing margins and the overall financial health of the Cooperative. This concept also assumes utilities should take the risk of building or buying potentially more expensive renewable resources without acknowledging the regulatory and rate making risk of doing so.

However, if at some point in the future, the Commission evaluates load diversity, together with the related topics of reliability, dispatch ability, and reserves exclusively during the Integrated Resource Process, and eliminates separate mandates and annual plan updates for renewables, then the funding of these programs could be determined during rate cases. If ever renewables actually become a least cost resource, they would likely be justified and installed, provided the issues of reliability and dispatch ability are overcome or sufficiently minimized. This would eliminate the need for "top down" implementation plans involving incentives, subsidies and surcharges.

VII. Track and Record

This concept only partially addresses the issue of who owns the REC—none of the other issues created by the REST Standard. It should be rejected.

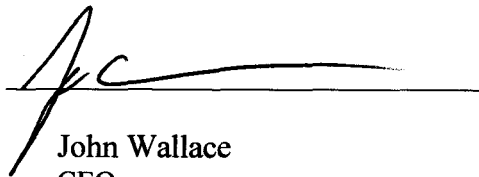
Conclusion

In conclusion, the Cooperatives urge the Commission to reevaluate the REST Rules, taking into account market changes and our comments above. We look forward to the discussion on this matter.

RESPECTFULLY SUBMITTED this 21st day of April, 2014.

GRAND CANYON STATE ELECTRIC
COOPERATIVE ASSOCIATION

By



John Wallace
CEO

Docket Control
April 21, 2014
Page 8

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